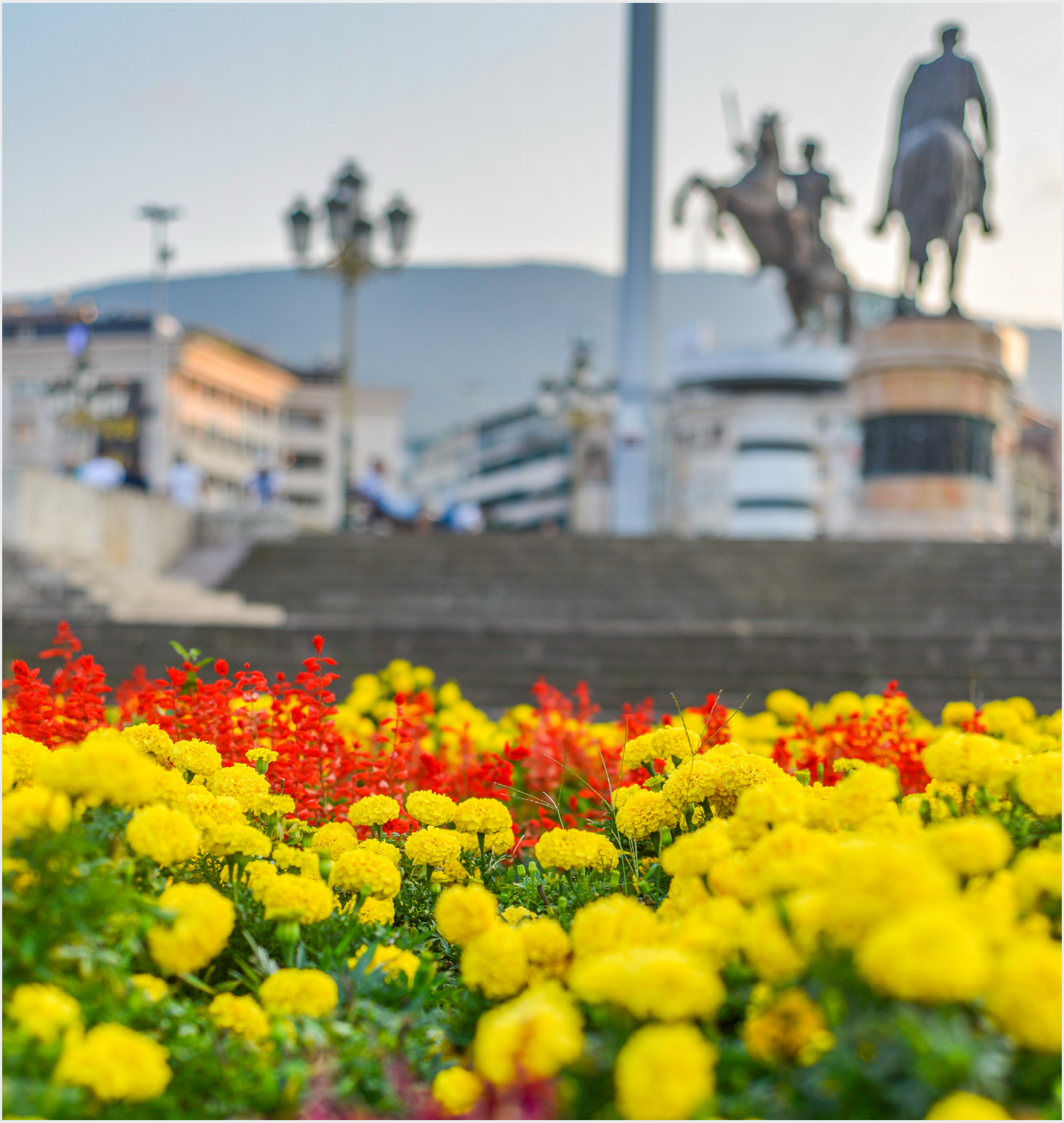
EMERGING EUROPE

Outlook on the Macedonian Economy 2019

emerging-europe.com

Investing in North Macedonia • ICT in North Macedonia: Never more important • EU accession, not Prespa, will make or break Macedonian PM • Automotive components • Gearing up for investment



WeWork Tower Bridge
1 St. Katherine's Way
London E1W 1UN
United Kingdom
Telephone: 0044 20 3808 8228
Website: emerging-europe.com
Email: office@emerging-europe.com

ISSN 2399-7605

This research is a product of the staff of Emerging Europe Limited.

Table of contents

Investing in North Macedonia

World Bank Country Manager Marco Mantovanelli and Vice President of the International Finance Corporation (IFC) Georgina Baker speak to Emerging Europe's Andrew Wrobel about the investment outlook for the Macedonian economy as the country seeks to reap what has become known as the Prespa Dividend.

WORDS ANDREW WROBEL

The Prespa Agreement, which ended a three decades-long dispute with Greece over the use of the name Macedonia, has propelled North Macedonia into the international limelight, with investors eager to make the most of the political and economic stability the agreement brings. NATO membership – no longer blocked by a Greek veto - is likely by the end of 2019, and while EU accession remains a longer-term project, it is nevertheless a key target for the country's government. Investors already appear to like what they see.

"The country is well-positioned to seize the opportunities that EU accession can bring," says Marco Mantovanelli, country manager North Macedonia for the World Bank. "Its early market-oriented reforms, openness to trade, and prudent macroeconomic management have created an environment of economic stability that has attracted private investment and boosted exports, particularly in manufacturing. In the last two decades, its economic growth was among the most stable in the Western Balkans, income per capita doubled, and the country moved from low-middle- to upper-middle-income status. Its strategic geographical location on two pan-European corridors, Corridor VIII and X is also a major asset."

The World Bank's vice president, Georgina Baker, visited North Macedonia earlier this year and has been keen reiterate the bank's support for the country, which it views as holding key importance in the Western Balkans region.

"Our goal in North Macedonia is to create economic opportunities, support European integration and facilitate development by strengthening the private sector's role in the economy," she tells *Emerging Europe*. "Since 2001, we have invested about 400 million US dollars in North Macedonia, supporting private companies in the energy, telecoms, and pharmaceuticals sectors, among others. In addition to our direct investments, we have also implemented a number of advisory programmes to facilitate development of the country's private sector potential."

Integrating global supply chains

As Mrs Baker explains, North Macedonia has made good progress in attracting foreign direct investment, especially into its manufacturing sector. "However, many local firms are struggling to integrate themselves into the global supply chains of large foreign companies," she says. "We think overcoming this challenge will provide North Macedonia with great opportunities for growth, job creation and further foreign investment."

The World Bank's Mr Mantovanelli believes the Macedonian government's policies should be directed to facilitating horizontal measures which will benefit all companies and provide an equal playing field for development of a vibrant private sector. Selecting particular sectors for growth is always difficult and risky, he says, as the ongoing technological revolution is changing the business landscape fast.

"Selecting the winners of today as the sectors of tomorrow might lead to a gross misallocation of public resources," he tells *Emerging Europe*. "Economies that have successfully remained competitive for long periods have built their capabilities and provided a sound business enabling environment that allowed the private sector to adjust to market competition and opportunities over time. Creating a business friendly environment, implementing efficient and transparent state aid programmes for export competitiveness and innovation, unlocking product and network market regulation, easing labour market restrictions, and ensuring efficient delivery of public services is critical. Building on past success, the country must continue attracting FDI, but it also needs to ensure that new FDI nurtures exports with more local content. This requires both adjusting the FDI attraction strategy and building the capabilities of domestic firms."

Mr Mantovanelli agrees with Mrs Baker about the importance of exports.

"It is beyond doubt that a small, land-locked economy such as North Macedonia cannot sustainably grow without relying on exports," he says. "Local firms will need help to build up their capabilities for innovation and adoption of technology to be better integrated in the region and beyond, and to build local links to FDI. Finally, agriculture, a lagging sector but a major employer, has considerable potential for productivity growth and exports once current subsidy mismatches and an underdeveloped land market are corrected."

To help with this, in June the World Bank entered into a new partnership with the government to support development of the country's industrial/manufacturing sectors, by advising local private companies on ways to improve their operations and better meet international standards – this will allow them to integrate into the regional supply chains and provide better value added services.

Success stories

The IFC is already excited about the impact of its work

in North Macedonia. A 10 million-US dollar loan it provided to Tutunska Banka is helping the lender provide long-term funding to small and medium enterprises, which are vital to the Macedonian economy.

"We also made an investment of eight million euros in Key Safety Systems, which helped finance the construction of a factory that produces airbags in Kičevo," says Mr Mantovanelli. "This is a relatively underdeveloped part of North Macedonia with an unemployment rate of about 30 per cent at the time of IFC's investment. Not only did our contribution support foreign direct investment, it has created about 1,300 jobs. And we are very pleased to see that more than 70 per cent of these new jobs were provided to women."

In addition to direct investments, IFC's advisory work has supported key reforms in energy, trade, and corporate governance.

"One example is IFC's Renewable Energy Macedonia Advisory Project, which facilitated 245 million euros in private sector financing for small hydro-power plants and renewable energy technologies," Mr Mantovelli adds.

More innovation needed

While in recent years there have been promising examples of growth and innovation among firms in North Macedonia, the innovation ecosystem and firms' capabilities to innovate need to improve if the country is to increase productivity and generate sustainable economic growth.

"Available measures of management and innovation capabilities rank firms substantially below the country's aspirational peers," says Mrs Baker. "These measures include managers' skills and willingness to delegate authority, firm-level technology absorption, the capacity to embrace disruptive ideas, the sophistication of production processes, the proportion of people engaged in research and development and the overall propensity to innovate. Business entry density (the number of newly registered companies per 1,000 working-age people) fell from 6.6 in 2008 to 3.9 in 2016, the latest data available. Business reviews of domestic firms in North Macedonia have concluded that firms need to improve in the areas of business strategy, marketing and promotion strategy, technical and safety standards, lean manufacturing and continuous improvement, corporate governance, and developing long-term visions with concrete improvement plans to increase their competitiveness."

Better access to finance will also be crucial.

"It could become a binding constraint," says Mrs Baker. "Micro and small firms encounter greater difficulties in accessing suitable financing compared with medium-size firms. Recently, commercial banks have increased their focus on lending to small and medium enterprises (SMEs), striving to manage concentration risk by diversifying their loan books away from large corporates. However, relatively high collateral requirements and weak financial accounts worsen firms' ability to access financing from banks, and available financing for micro firms, small firms, and start-ups remains limited." ▲

Q&A: KOCHO ANGJUSHEV
DEPUTY PM OF NORTH MACEDONIA

How big an impact will the Prespa Agreement have on investment?

The Prespa Agreement has significantly changed the situation of the state on both international and domestic levels. Internationally, it has brought changes to the image, and to the reputation of the country. In the period of 2015-17 this country was called a "captured state" and faced long-term problems with its neighbours. By resolving these problems, North Macedonia has become a country that has clear future, and a country that investors see as a safer investment destination, no matter whether these are domestic or foreign investors.

What challenges remain?

The greatest challenge the country faces at the moment is to stabilise itself with regards to the possible political crisis that might follow strong pressure from powers who do not want to see North Macedonia become part of NATO and the EU. Furthermore, we must resolve some issues in order to start negotiations – these include the issue of the Special Public Prosecution. Afterwards, I am sure, the country will sail into calmer waters. At that point, we will be able to focus on the economy, fully. One of the challenges for the country will be to secure higher growth and increase salaries, as well as to encourage investors, both domestic and foreign, to invest in the country. We have a clear plan how to help companies increase their capacity, and this year we decided that we will allocate 40 per cent more funds in support of the economy.

What sectors are ripe for investment?

We can develop tourism more, but our country is not Croatia or Greece, it cannot live on tourism alone. That is why the areas which need to be developed are clear: industrialisation, construction (in infrastructure), trade and agriculture and agricultural products processing. I also see the possibility for development of the IT industry because it is already producing good numbers, and we have smart, well-educated people.

ICT in North Macedonia: Never more important

The information and communication technology (ICT) industry is the fastest growing sector of the economy of North Macedonia, and it plays an important role in the economy as a provider of jobs and generator of exports.

WORDS SHAKHIL SHAH **AND** CLAUDIA PATRICOLO

"In 2017, the information and communication technology sector was worth around 800 million euros, which accounted for 7.8 per cent of the country's GDP," explains Anita Nikova, executive director of the Macedonian Chamber of Information and Communication Technologies (MASIT).

Several years ago the sector only counted for two-to-three per cent of GDP, which at the time was a modest 40 million euros or so in revenue. The two figures demonstrate that no other industry in North Macedonia has seen such rapid growth as ICT.

"While agriculture is a positive sector, it is completely dependent on government subsidies," Mrs Nikova tells *Emerging Europe*. "When it comes to ICT, there are no subsidies for the sector or tax incentives for the industry. Which means that the growth you are seeing is completely organic and natural, enabled by the real growth of companies."

The government's other priorities

It is precisely the fact that the sector has received very little support from the government that has led many companies to call for more recognition from the authorities.

"The general impression is that the North Macedonia government is preoccupied with other priorities and is not paying attention to how it can proactively help the IT sector," Vladimir Robevski, managing director of the IT company iSource, tells *Emerging Europe*.

"We need a national framework for coordination between state institutions, the education system and the private sector, where these growth opportunities would be strategically evaluated and acted upon, agrees Ilija Gospodinov, CEO of software developer Endava. "Looking long-term at our national economic growth, we

feel that we can create much more awareness about the professional opportunities that the ICT sector provides for young professionals and their future."

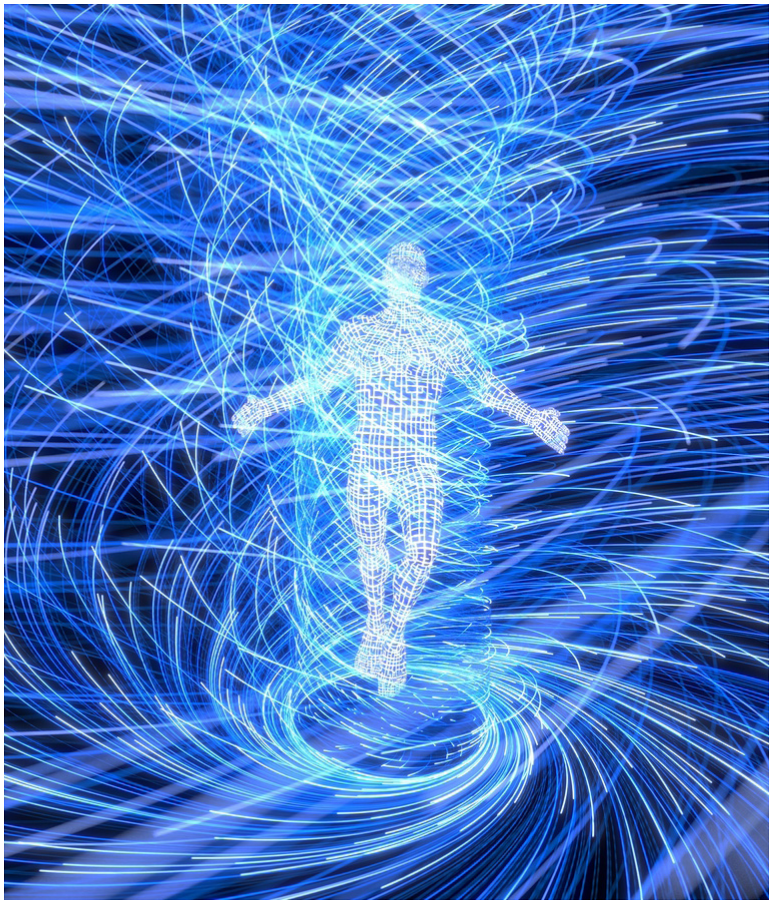
According to a country report prepared by the European Commission, there is a need for North Macedonia to develop a long-term digital strategy. Too many barriers remain in place, and these have to be removed.

However, North Macedonia's minister of information society and administration, Damjan Manchevski, has repeatedly stressed the importance of technology which can lead to a true digital evolution in the country and boost the economy, especially after the adoption of the National Operational Broadband Plan, aligned with the EU's strategic goals.

Aneta Antova Peseva, CEO of ULTRA Computing, a company focused on system integration and design, agrees that the government has introduced measures toward fostering ICT growth, while addressing two major challenges: innovation and human capital.

"The first challenge is addressed by the innovative fund, tech parks and incubators and the second challenge is mainly addressed by projects which set out to retrain human resources," she tells *Emerging Europe*.

"Although direct measures for ICT have not yet been implemented by the institutions, still the industry is rapidly growing. One very important issue that can be improved at this stage is stronger cooperation between the government and ICT for introducing new taxes and regulations. For example, measures to introduce tax relief on exported services would make Macedonian ICT companies more competitive in the global market," she admits.



"Measures to introduce tax relief on exported services would make Macedonian ICT companies more competitive in the global market"

When taxes reduce growth

Until January 2019, Macedonia had one tax rate: 10 per cent, which some people claim was stifling human development.

"It was the lowest rate in Europe," says Mrs Nikova. "Therefore, budget revenues are among the lowest in Europe, leaving the country without sufficient funds for quality health, education and social protection. In addition, North Macedonia has the highest social inequality in Europe, hence the re-introduction of a progressive income tax of up to 18 per cent."

The change means that employees who earn more than 1,500 euros per months will pay more tax. Mrs Nikova believes that many ICT companies will meet the difference themselves in order to avoid creating a situation where employees see a reduction in their take-home pay.

"We have yet to see if the changes will have a positive affect on the national budget, or if it has created even bigger resistance amongst companies, something which may lead to the total tax take for 2019 being lower than in the past," she says.

Finding the right talent

Although there are many opportunities for the development of ICT in North Macedonia, a lot still needs to be done to bring the country to the same level as others in the emerging Europe region. Many large ICT companies, such as Microsoft, Cisco, Oracle, Dell, IBM and Apple, are present in North Macedonia via branch offices, distributors, dealers, resellers, solution providers, and business partners. But with an unemployment rate at 17.8 per cent, finding the right talent can be a tough challenge.

"There is quite a lot of demand for such services on a global level, and the real opportunity for our ICT sector is to match the demand with skilled professionals," says Endava's Mr Gospodinov.

"The vision is to have a suitable work position for every young professional entering the labour market, while also being able to easily match skilled professionals with the current demand on the market. A lot has been done to encourage cooperation between companies and universities, and we hope for even better results by supporting partnership projects for the re-qualification of workers with IT-related skill profiles." ▲

EU accession, not Prespa, will make or break Macedonian PM

Having concluded an agreement with Greece over the use of the name Macedonia, ending an almost 30-year-long and often bitter dispute, North Macedonia is likely to be made a full member of NATO by the end of the year. Membership of the European Union however is much further away – at least a decade – and failure to begin accession talks by the time of next year's general election could spell the end of prime minister Zoran Zaev's ruling coalition.

WORDS CRAIG TURP

Spring 2019 was the best of times for North Macedonia's prime minister, Zoran Zaev. Having worked tirelessly, and successfully, to conclude the so-called Prespa Agreement and bring an end to the almost 30-year long dispute with Greece regarding the use of the name Macedonia, Mr Zaev could have been forgiven for thinking that his political legacy was assured. NATO membership looked imminent, as did the beginning of accession talks with the European Union. Along with his Greek counterpart Alexis Tsipras, Mr Zaev was even awarded the *Emerging Europe* Outstanding Achievement Award for concluding the Prespa deal.

Since then, there have been complications.

While NATO membership remains a nailed-on certainty (and in all likeliness will happen before the end of 2019; NATO Secretary-General Jens Stoltenberg said during a visit to Skopje in July that the military alliance was "ready to welcome" the country as its 30th member), the EU has not been so forthcoming.

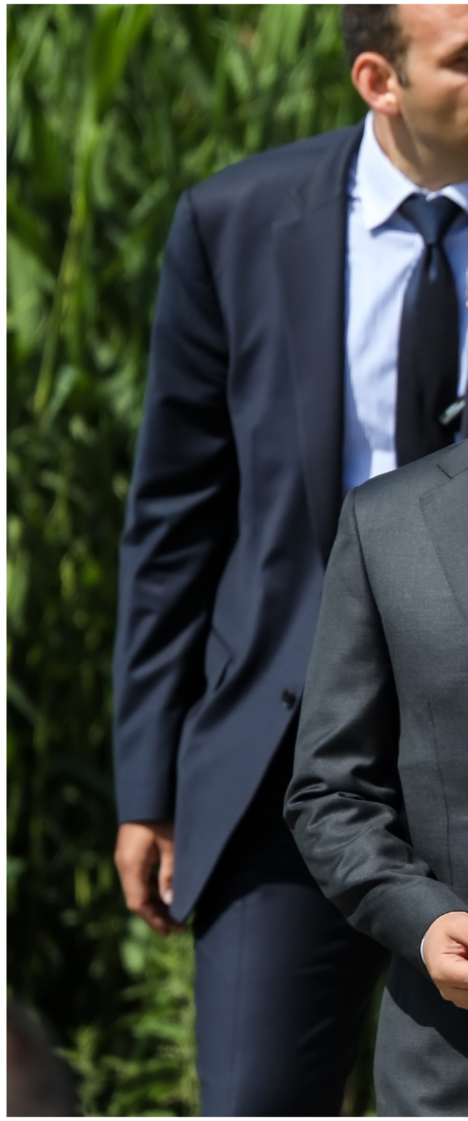
Its prevarication could well spell the end of Mr Zaev's time in office. He spent a great deal of political capital getting the name deal through various administrative, legislative and constitutional hoops, with the promise that formally bringing the conflict with Greece to an end would firmly put the country on the path towards EU membership. So far, it hasn't worked out that way.

In June, the European Council failed to give North Macedonia (as well as Albania) the green light to start accession talks, delaying a decision on the matter until October. This despite the EU's executive, the European Commission, declaring in May that both countries had made the necessary progress on democratic standards and the rule of law to begin accession talks. France and the Netherlands, increasingly keen on reforming the existing European Union before admitting any new members, were reportedly the leading voices of opposition.

European Commissioner for Enlargement and Neighbourhood Policy Johannes Hahn said that he was "extremely confident" the two countries would get the green light in October, and warned that the credibility of the EU's ambitions in the Western Balkans would be jeopardised if it failed to reward the two countries for meeting goals set by Brussels.

"Unfortunately a minority of member states were not able to support the commission's proposal to open accession negotiations with Albania and North Macedonia already today," he said, adding, "our collective credibility is at stake and our incentives and leverage for tough reforms across the region are equally at stake."

While North Macedonia may now ask the EU to consider its application separately from Albania, one of the problems is that the political bargaining involved in passing the constitutional amendments to change Macedonia's name included granting amnesty to opposition MPs facing trial, which critics

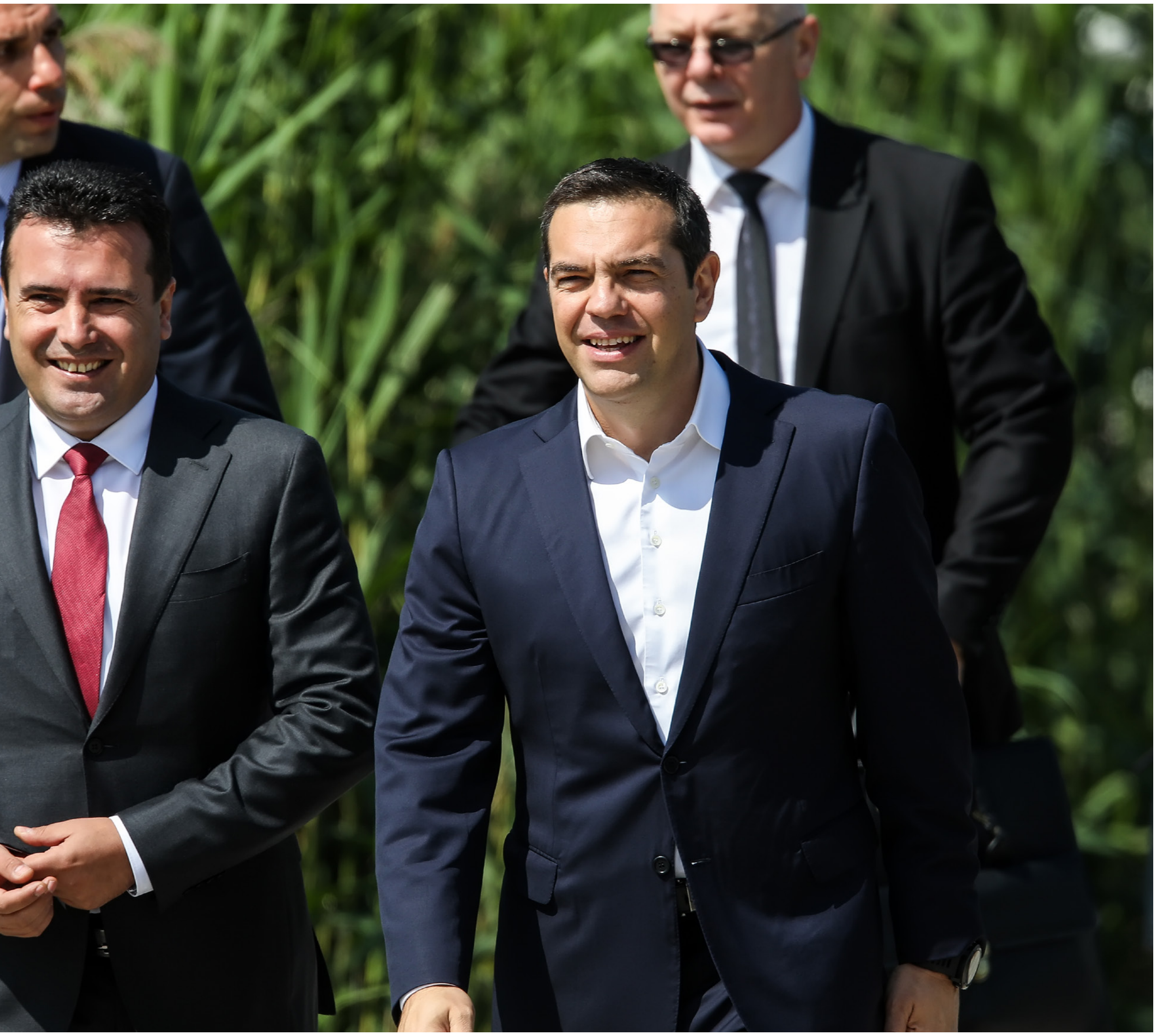


say undermined the rule of law and judicial independence, key requirements for EU membership.

Regardless, Richard Grieveson, an economist at the Vienna Institute for International Economic Studies (wiiw) warns that any delay in the opening of accession negotiations sends a terrible signal to the rest of the Western Balkans.

"The leaders of North Macedonia have spent a lot of political capital to secure a deal on the country's name with Greece," he tells *Emerging Europe*. "A weakening of enlargement momentum could cause setbacks to the reform agenda in the region, and create openings for China and Russia to exert greater influence, something that is not in the EU's interests. Only

Zoran Zaev (left) and Alexis Tsipras



with serious EU support, and the (still very strong) carrot of eventual membership, can the Western Balkans forge a stronger development path and start to catch up with CESEE peers."

However, as Marko Čeperković of SciencesPo Paris points out, the citizens of North Macedonia cannot count on being in the EU before the end of the next decade, even if everything goes well. He believes that Western Balkans leaders such as Mr Zaev should come clean and tell their electorates exactly that.

"They must be told that they cannot expect the EU to come and resolve systemic problems for them, as it will not and should not do so," he says, adding: "but they do need awareness and capacities of how to do it, and this is where the EU can and should help. Civil society needs allies, not enablers."

Mr Zaev's left-leaning government took power in 2017 after credible allegations of a massive, government-sponsored wiretapping and surveillance programme emerged in 2015, prompting a crisis that paralysed normal political activity.

In May 2018, former prime minister Nikola Gruevski was sentenced to two years in prison following a corruption conviction stemming from the purchase of a 700,000-euro Mercedes in 2012. Mr Gruevski then fled to Hungary, apparently with the assistance of Hungarian diplomats, and claimed political asylum, granted by the Hungarian government which continues to refuse to extradite him.

According to Freedom House, an independent watchdog dedicated to the expansion of freedom and democracy around the world, North Macedonia continues to struggle with corruption, and while the media and civil society are active, journalists and activists face pressure and intimidation.

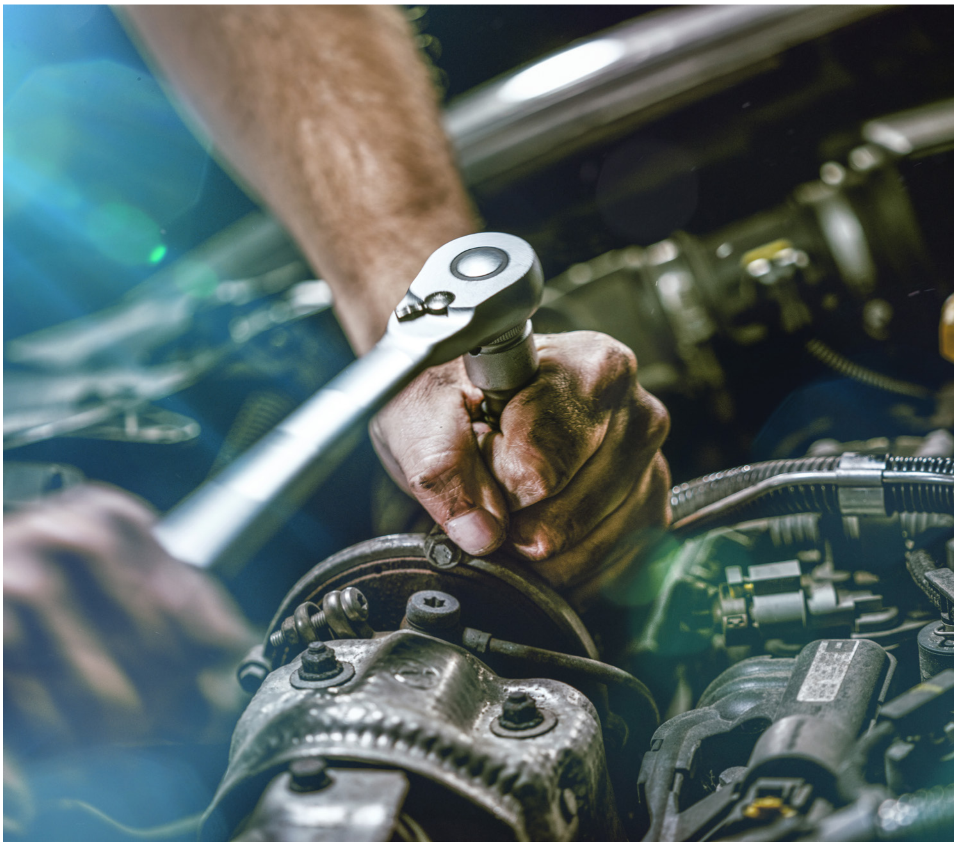
North Macedonia will hold a parliamentary election next year that offers Mr Zaev's opponents an opportunity to call his bluff.

There does at least appear to be little danger of a new, more nationalist government reneging on the Prespa deal. The Macedonian president, Stevo Pendarovski, elected earlier this year, is a Zaev ally and a supporter of the deal. ▲

Automotive components: the rising star of the Macedonian economy

North Macedonia is experiencing a surge in its automotive component sector, aided by generous government policy, location and a cost competitive market environment.

WORDS PORTIA KENTISH



North Macedonia has a long history in the automotive sector, dating back to the Yugoslav period when the region's factories supplied the Serbian automotive producer Zastava. From there, the manufacturing sector slowly became specialised, as several producers of automotive components began sprouting up around the country. Despite suffering from slow economic growth in the immediate post-communist period, privatisation led to many companies being bought by foreign investors which aided the economy's growth.

According to the World Bank, the Macedonian outlook is now increasingly positive as GDP per capita rose by 2.43 per cent in 2018, with overall economic growth expected to rise by 3.2 per cent by 2020. This fast-paced economic success partly has the booming automotive component industry to thank.

Recently, a wave of foreign investors has come to North Macedonia, where 50 automotive component companies currently operate. These companies have a large global reach, exporting to Europe, Russia, Turkey, Africa and around the globe, encompassing a market of over 650 million people. North Macedonia's location allows it to deliver to many of these regions quickly, taking less than a day to Central and Eastern Europe and Turkey, and two days maximum to Western Europe. With vehicle components currently making up 3.8 per cent of all exports, current trends project for this to increase. However, other analysts are projecting a market saturation point, depending on how the sector adapts to cope with ever-changing market forces.

Competitive tax rates

The recipe for the industry's current success is a result of various ingredients that encourage foreign investment while focusing on establishing development for the long term. Nevertheless, under close analysis this recipe can be improved in order to ensure future growth.

One of the main factors leading to growth within the sector is the government's attitude towards the industry. Positive economic policies have dramatically encouraged foreign investment and aided the country in getting ahead in a cost competitive market. One of the first foreign companies to invest in North Macedonia, Johnston Matthey has benefitted greatly from these curated government policies. The company's managing director Olivier Krotozyner told *Emerging Europe* that "investment was made in cooperation with the government authorities" adding that "we have always had a positive and professional relationship."

One of the main reasons for strong government-company relations is the low tax rate for doing business. North Macedonia's low income tax is complemented by a corporate tax rate of 10 per cent, which compared to other countries in the region is relatively low. For example, Romania's sits at 16 per cent while Poland's is

19 per cent. Moreover, value added tax (VAT) nominally 18 per cent, can drop to five per cent in some circumstances. To further encourage business and investment opportunities, the Macedonian Bank for Development Promotion lowered the export factoring interest rate from six per cent to five per cent per annum in 2016, in order to benefit the country's exporters.

North Macedonia's business conditions also gain from various taxation and investment treaties with the majority of European countries, as well as duty free access to the European market. As much as 96 per cent of foreign trade is currently unrestricted. However, Jatin Thakrar, who has been involved in the automotive sector for many years, and is currently the retiring CEO of DURA Auto, believes that there are some limits to this. He suggests that the rates on import duties on raw materials are a major issue which governments have failed to overcome, despite their objective to protect local industry. This, Mr Thakrar suggests, "needs to be aligned with EU duty rates urgently to provide a competitive advantage for the sector and local industry."

Apart from the government's economic policies, other factors also play a large role. "While the government's policies played a part, there are many other benefits for selecting Macedonia; it is a very secure country, with a good infrastructure and general transport links," adds Mr Krotozyner.

Skilled workers, in limited numbers

A major factor influencing the profitability of businesses in the automative sector is the available workforce. Labour within the region is very cost-competitive, lowering a firm's overall costs. In 2018 the average gross salary was 580 euros across all sectors, while the manufacturing sector was at 490 euros. This is amongst the lowest gross monthly salary in the region, where unemployment is forecast by the World Bank to remain at around 20.5 per cent. Fifteen years ago, before the influx of automotive component makers and overall economic growth, this was a staggering 18 per cent higher.

The Macedonian government has also launched Technological Industrial Development Zones which are aimed at providing favourable investment conditions for businesses. This includes offering pre-built industrial sites, factories and support services as well as tax and customs incentives. The government has also decreased the steps for business registration from 12 steps to four. Combined, this vastly speeds up the process for companies looking to enter the market.

Education is also a primary tool in generating further industrial development. Some 165 university students are currently undergoing training in preparation for the future workforce of Johnson Controls which is currently constructing a 40 million-US dollar facility outside the capital Skopje. Ensuring a skilled and accessible workforce is key for North Macedonia's industrial development, as well as keeping labour and wages domestic. This has a particular impact on North Macedonia's young population, with nearly half being aged under 30.

Nevertheless, many suggest that the education system could be further improved to help business development. "Education needs to change in a major way," says Mr Thakrar. "North Macedonia needs to move towards a high value-added, export-driven economy if there is to be a long-term improvement in the per capita income of people." He stresses that more long-term thinking is required, and Singapore is an example that could be more closely followed. "Too many people believe that joining NATO and the EU will bring in money," he says. "That may be short lived, and then what? Where do you want Macedonian graduates to be in say, 20 years?"

Furthermore, Mr Krotoszyner points out that there are limitations to North Macedonia's skilled workforce, purely because of size constraints, which is always a consideration in terms of company expansion.

Moving forward

Despite the hurdles, North Macedonia continues to move forward. In 2006, North Macedonia's ease of doing business rating sat at 94th out of 175 according to the World Bank. Last year the country's ranking rose to 10th place, just one place below the United Kingdom.

However, this low tax and lack of regulation brought about by strong government focus on encouraging the automotive component sector has had some adverse effects. Stringent environmental regulations on pollution and carbon emissions are limiting large investments and running contradictory to government policy focus on industry. Nevertheless, the country's carbon emissions per capita is on the general decline, and the industry has shown a willingness to adapt.

The challenge for North Macedonia now is to keep up with ever-changing market pressures. The low labour costs are set to erode in the future as the country's GDP continues to grow, diminishing investor advantages. The public sector will need to rearrange efforts in order to improve standards of living while fostering private sector growth. Another future challenge for the sector will be new technology and changing consumer preferences. For example, the rise of Tesla and other electric vehicle companies will require an acclimatisation of the industry if it is expected to keep up with the fast-paced market. Mr Thakrar suggests that the "auto sector will change over a period of time", pointing to the businesses and people who will have the biggest influence, rather than the government itself.

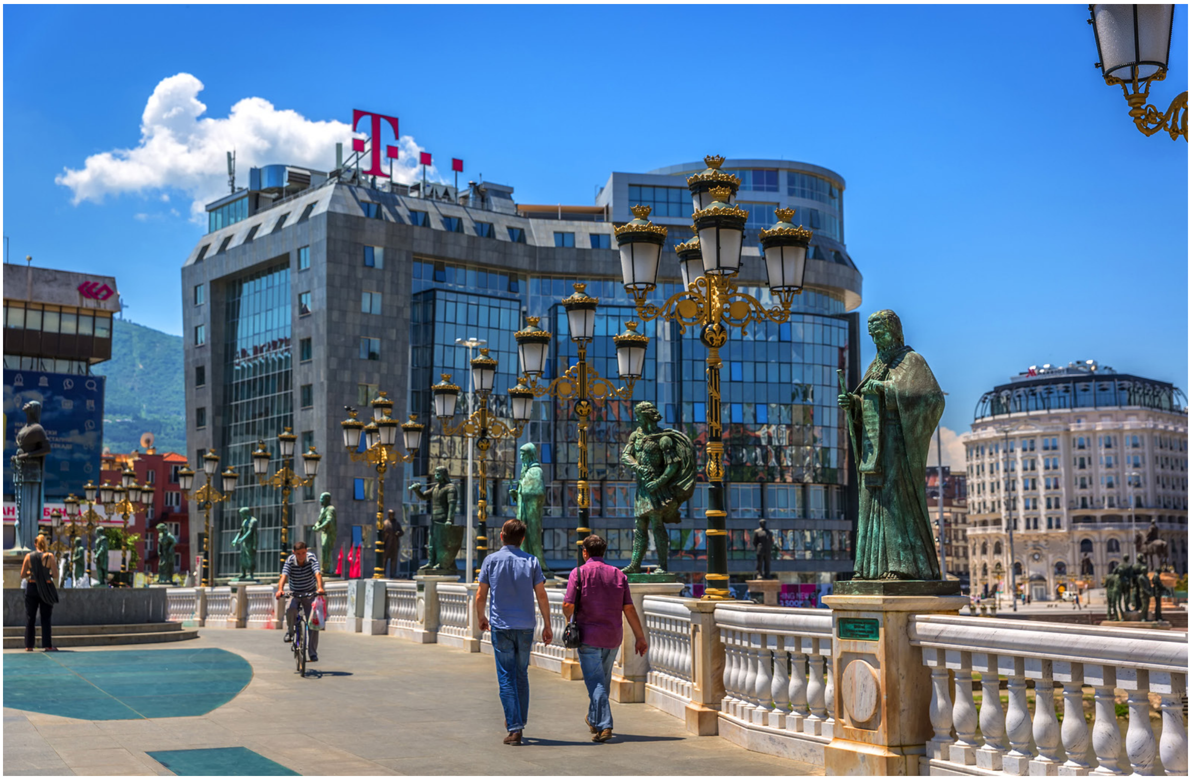
The automotive component sector of North Macedonia is an interesting case in what government policy, environmental factors and luck can do for fostering business development. What makes it more interesting is how it will cope with current and future challenges, as these changing markets can provide a wealth of new opportunities if North Macedonia plays its cards right, otherwise it could well be left behind in the turbulence. ▲

"Almost half of North Macedonia's population is aged under 30"

Gearing up for investment: Doing business in the Macedonian economy

North Macedonia is the only country from the Western Balkans to make the top 10 of the World Bank's Doing Business Index. The country, which continues to aspire to Euro-Atlantic integration, is heavily dependent on foreign investors, and how it presents itself on the international stage is crucial.

WORDS DOMINIK ISTRATE



North Macedonia has been at the centre of European and even world attention since the signing of the so-called Prespa Agreement last June, ending a nearly three-decades-long cultural dispute with Greece over the official name of the country. The deal allowed the country to proceed with its NATO integration, something which is expected to have a positive effect on the Macedonian economy.

"The experience of other countries shows that when a country becomes a member of NATO, the inflow of FDI doubles as a percentage of GDP," North Macedonian finance minister Dragan Tevdovski said earlier this year, adding that the government expects greater FDI inflows "now that the political situation has stabilised."

After economic stagnation in 2017 caused by a decline in both private and public investment, the country's economy expanded by 2.7 per cent in 2018 and it is now on course for a growth rate above three per cent for this year, while a four per cent growth projection for 2020 might need revising upwards, since the effects of the country's future accession to NATO has not been taken into consideration, Mr Tevdovski added.

"Security is the foundation of prosperity," NATO secretary general Jens Stoltenberg told the press in June, pointing to the rise of foreign investments in North Macedonia since the Prespa Agreement was signed.

"Big companies with billions in annual revenues are coming," North Macedonia's prime minister Zoran Zaev stated confidentally. According to the PM, the agreement will open up not just political, but economic benefits since Greek companies have promised to invest more than 500 million euros in the country's energy and agriculture sectors.

Attracting a high level of foreign direct investment is a crucial task for the country: FDI remains one of the main pillars of the Macedonian economy and the government's efforts to create jobs. FDI totalled 624 million euros in 2018, close to six per cent of the country's GDP. The FDI inflow is more remarkable in the sense that it is more than triple what North Macedonia received in 2017. Austrian, British, Greek, Dutch and Slovenian companies remain the country's largest investors.

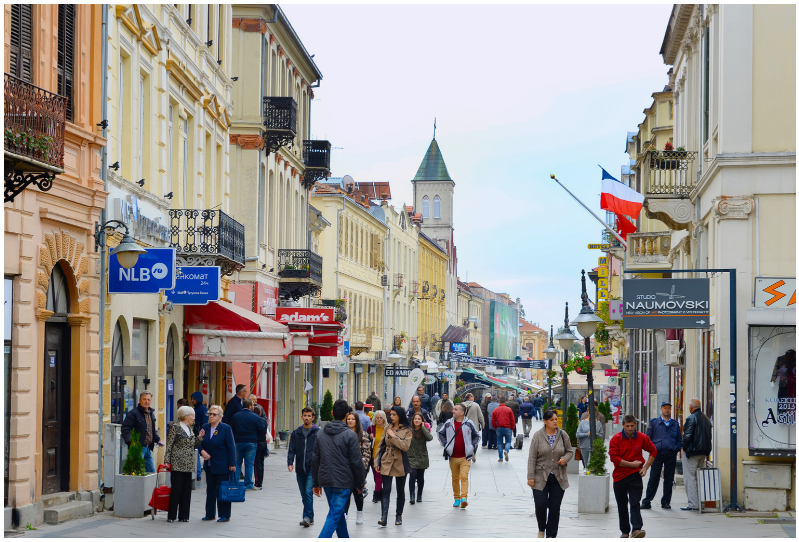
Why North Macedonia?

"Foreign investors find North Macedonia attractive due to several factors. It is located on a major transport corridor, leading from the Greek ports receiving goods from Asia to major export markets in Western Europe," Peter Tabak, an economist at the European Bank for Reconstruction and Development (EBRD) told *Emerging Europe*, adding that the country "also has an industrial heritage from the former Yugoslavia and relatively skilled labour, although these skills have to be adjusted to modern business needs."

In its latest Investment Climate Report the US Department of State said: "North Macedonia's legal framework for foreign investors is largely in line with international standards, and foreign investors are generally treated the same as domestic investors in similar circumstances. The country has simplified regulations and procedures for large foreign investors operating in its technological-industrial development zones."

When it comes to the Western Balkans, anyone wishing to invest has to consider the political climate. Although EU leaders postponed the start of accession talks with the country in June, North Macedonia remains on course to eventually join the European bloc. "North Macedonia has continued to maintain a steady pace of implementation of EU reforms throughout the reporting period. The government has taken steps to restore checks and balances, and to strengthen democracy and the rule of law. The country has continued to undergo fundamental changes in an inclusive and open political atmosphere," the European Commission wrote in its latest country-specific report.

"The government pursues market-based economic policies, with an increased focus on social cohesion, while also enhancing state aid. In collaboration with the IMF, the World Bank and the European Commission, the government implemented reforms to improve public finance management," the report continues. However, it adds that "the policy stance needs further adjustment to address economic and fiscal challenges."



Obstacles remain

While the small Balkans state of just over two million people is one of the leading 10 countries in the World Bank's latest Doing Business Ranking, said to have a better investment climate than Sweden or Canada, it ranks way lower on the World Economic Forum's Global Competitiveness Index (GCI), coming in 84th place. Asked about what can explain this huge difference between the two ratings, Mr Tabak told us that the country had advanced a lot in its business legislation and many business processes during the 2000s, with the World Bank's ranking acknowledging it. "The GCI, however, covers a broader scope and includes many other institutional elements where North Macedonia still has a lot of gaps to cover, including in improving the quality of the transport infrastructure and education, levelling the playing field for businesses, removing distortive taxes and subsidies or strengthening innovation," he said. "While foreign businesses receive special treatment and large subsidies in free economic zones or technological industrial development zones, local SMEs often face a much more difficult business environment," he continued.

"The country's overall regulatory environment is complex, and frequent regulatory and legislative changes, coupled with inconsistent interpretations of the rules, create an unpredictable business environment that allows for corruption," the US government report claims. While the current government pledged to fight against corruption, some NGOs assess that "the government's dominant role in the economy created opportunities for corruption."

According to Mr Tabak, the EBRD's transition gap analysis shows that there is a great deal of room for improvement. A transition to a green economy by increasing the share of renewables, to an inclusive economy by lowering youth unemployment and increasing the labour market participation of women, as well as to a resilient economy by decreasing dependence on electricity imports would all help the country in attracting investment. "Also, competition from the informal sector and access to finance (more than in other Western Balkans economies) is a significant obstacle to doing business according to the EBRD-World Bank Business Environment and Enterprise Performance Survey," he continued, stressing that political connections also have a high impact when it comes to doing business in the country. ▲

"North Macedonia's workforce needs to adjust its skills to modern business needs"